

exemption from registration as a clearing agency subject to certain limitations and conditions as set forth below.

I. Description

A. Trade Clearance and Settlement

1. Overview

CCOS will provide clearance and settlement facilities for trades executed by CBB and its customers in the CBB trading system.¹¹ As described in the amendment,¹² CBB's business will be limited to acting as an intermediary for U.S. government securities transactions paired through its computer system.¹³

The CBB trading system is designed to offer CBOT members an opportunity to execute a customized package of transactions related to Treasury futures contracts traded on the CBOT.¹⁴ The system will permit the trading of government securities, independently and in conjunction with CBOT futures on government securities ("basis trades"),¹⁵ and repurchase and reverse repurchase agreement contracts in government securities ("dollar rolls").¹⁶

¹¹ CBB is a wholly-owned subsidiary of the CBOT and has requested no-action relief from the Commission staff with respect to the operation of the automated trading system for government securities. Letter from Mark D. Young, Kirkland and Ellis, Counsel for CBB, to Richard R. Lindsey, Division Director, Commission (December 11, 1995). The staff issued a no-action letter to CBB granting the relief requested and the Commission is issuing this order based on its belief that CBB is in compliance with the terms and conditions of the no-action letter. Letter from Richard R. Lindsey, Division Director, Commission, to Mark D. Young, Kirkland and Ellis, Counsel for CBB (December 12, 1995).

¹² *Supra* note 6.

¹³ The government securities listed for purchase or sale through the CBB system will consist of U.S. Treasury bills, notes, and bonds in their various maturities which are deliverable under financial futures contracts traded on the CBOT.

¹⁴ Only CBOT individual members, employees of individual members, and employees of CBOT member firms will be permitted to operate terminals. Each terminal will be uniquely identified in its communication with the central site, and each terminal operator will be assigned an identification number. CBB will maintain complete, time-sequenced electronic audit trails on all orders entered on, and all transactions executed through, the CBB trading system. The recorded activity will indicate, for a given order or transaction, the identity of the terminal operator entering, changing, or cancelling orders, the time such entry or change was effected, and the date, time, volume, security, and price of each transaction executed through the trading system.

¹⁵ A basis trade is a trade in which the participants agree to simultaneously buy or sell government securities against the offsetting equivalent CBOT treasury futures contract. The basis represents the price differential between a government security and the futures delivery price.

¹⁶ In a dollar roll transaction, the seller of the contract delivers notes or bonds to the buyer in exchange for cash. Settlement occurs the same day. At the time of execution, the seller and buyer also agree to reverse the transaction at a price that

Using the CBB trading system, therefore, CBOT traders in government securities will be able to buy and sell the government securities underlying CBOT futures contracts and using dollar rolls will be able to execute trades that help inventory management. CBB will execute transactions for system participants as broker. All trades will be effected through the CBB's electronic network. The settlement date for outright purchase and sale transactions will be the next business day except for when-issued ("WI") securities which will settle on the day of issuance by the U.S. Treasury.

Under the terms of the proposal, any CCOS participant or any customer of a CCOS participant that is also a CBOT member or member firm (hereinafter collectively referred to as a CBOT member) will be able to obtain a CBB trading terminal.¹⁷ Each CCOS participant will be required to enter into an agreement with CBB setting forth the terms and conditions of access to and use of CBB's terminals. Using a CBB terminal, a terminal operator will be able to view the terminal displays to see the prices and quantities of current bids and offers, which are displayed on an anonymous basis, and to review its trading activity.

CBB is developing several methods for market participants to access the CBB trading system. CBB will: (1) provide CBOT work station terminals which will access the CBB trading system and include other market information and trading systems available through the CBOT;¹⁸ (2) provide an interface between CBB's central computer and a CBOT member's internal computer network; and (3)

includes a financing interest amount with settlement occurring the next day.

¹⁷ The Board of Directors of CCOS may permit other clearing agencies registered with the Commission or that are exempted from registration by the Commission access to some or all of the services offered by CCOS according to terms and conditions prescribed by the Board of Directors. Clearing agencies that are granted access to CCOS's services pursuant to CCOS Rule 309 will not be considered participants of CCOS under the rules except as determined by the Board of Directors. Letter from John C. Hiatt, President and Chief Executive Officer, BOTCC, to Jonathan Kallman, Associate Director, Commission (September 13, 1994).

¹⁸ The CBB trading system is based on a modification of the CBOT's Project A trading system. Project A, available to CBOT members, is an electronic order entry facility developed to allow trading over a local area network (for example, within the CBOT building) of CBOT's futures contracts, options on futures contracts, and other financial products. The Project A system is designed to facilitate trading by active order matching or through the posting of bids/offers on an electronic bulletin board.

provide access through an interface with quotation vendors.¹⁹

The system will permit users to execute basis trades as a single transaction where the price will reflect the spread in basis points between the futures contract and the underlying government securities. The government securities will be priced at a certain number of basis points above or below the futures contract.²⁰

The system also will provide users with the ability to execute dollar roll transactions. Dollar roll transactions are designed to facilitate the financing of government securities through the lending of government securities in exchange for cash and to facilitate the lending of funds in exchange for government securities.²¹ Dollar rolls will result in the creation of two simultaneous government trades.

CBB will have a morning trading session for dollar rolls from the opening of trading at 8:00 a.m. to 11:00 a.m. and an afternoon session for dollar rolls from 3:15 p.m. to 5:00 p.m.²² For dollar rolls executed during the morning session, the first leg will be for same day ("T") settlement, and the second leg will be for next day ("T+1") settlement. For dollar rolls executed during the afternoon session, the first leg will settle on T+1, and the second leg will settle on the following business day ("T+2").

CBB will match member trades and will submit the matched trades to CCOS on a real time basis so that trade data executed through CBB immediately flows to CCOS.²³ CCOS will perform the

¹⁹ Quotation vendors will offer CBB trading screens and order entry capability through their terminals which are served by national telecommunications networks. CBB will contract on a nonexclusive basis with one or more quotation vendors, each having interactive capabilities, to carry the CBB system for use by CBOT members.

²⁰ The futures leg of the basis trade will take the last reported trade price from the CBOT trading floor as the futures transaction price. The transaction ticket for the government securities leg of basis trades will include the commission charges and accrued interest. Settlement for the government securities leg will occur on the next business day in the same manner as outright government securities trades.

²¹ The CBB terminals will list the dollar roll spreads through bid and offer financing rates reflecting the annualized interest rates paid or received on the transactions. The transaction amount or value price on the trade date will reflect the settlement value of the first leg of the dollar roll. The settlement value is the amount of funds required to make or take delivery of the security. The transaction amount for the second leg of the dollar roll will reflect the fact that the holder of the overnight bond will not earn the coupon interest during the term of the transaction.

²² Unless otherwise noted, all times stated are Eastern Standard Time.

²³ CBB will create, operate, and maintain the computer system that enables orders to be entered and executed. CBB has developed trade matching

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